

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 EB-11 CIEP-03 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-03 XMB-07 OPIC-12 LAB-06 SIL-01

FEAE-00 DRC-01 /176 W

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R 231454Z AUG 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1738

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 02 PARIS 20132

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 19279, AUGUST 9, 1974

1. BANK OF FRANCE SEES GENTLE SLOWDOWN OF ECONOMY -

IN ITS AUGUST 12 SURVEY OF THE FRENCH ECONOMY, THE BANK OF FRANCE OPTIMISTICALLY FORECAST RESTART OF BUSINESS IN "GOOD CONDITIONS" FOLLOWING AUGUST HOLIDAY BREAK.

OVERALL TREND OF BUSINESS ACTIVITY APPEARS TO BE BECOMING MORE "NORMAL," ACCORDING TO BANK SURVEY. SUPPLY DIFFICULTIES IN RESPECT OF MAJORITY OF PRODUCTS HAVE DISAPPEARED, DELIVERY PERIODS HAVE SHORTENED, PRICES OF MOST

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RAW MATERIALS ARE FALLING (SEE BELOW), AND THE UPWARD

TREND OF SELLING PRICES HAS BECOME LESS PRONOUNCED.

ALTHOUGH THESE TRENDS CHARACTERIZE A COOLING OFF RATHER THAN A SLUMP, WIDESPREAD FEARS PERSIST OF A DECLINE IN SEPTEMBER. WHILE THUS FAR STRONG FOREIGN DEMAND HAS OFFSET EFFECTS OF ANTI-INFLATION MEASURES AND OTHER DEPRESSIVE FACTORS, THE BANK HAS ADMITTED THAT INDUSTRY FORECASTS, OTHER THAN IN CAPITAL GOODS SECTOR, ARE "EXTREMELY RESERVED" FOR END OF 1974.

2. SURVEY CONFIRMS SLOWDOWN IN WHOLESALE SECTOR -

THE SLOWING OF ACTIVITY ALREADY CONFIRMED IN THE FRENCH RETAIL SECTOR IS NOW BEING MANIFESTED IN WHOLESALE TRADE, ACCORDING TO JULY SURVEY BY THE NATIONAL STATISTICS INSTITUTE (INSEE).

AMONG CONSUMER GOODS, SALES OF FOODSTUFFS ARE FAR BELOW NORMAL WHILE THOSE OF NON-FOOD CONSUMER GOODS REMAINED RELATIVELY CONSTANT. THE GROWTH IN SALES OF INTERMEDIATE GOODS, WEAK SINCE MARCH, RECOVERED SOMEWHAT IN MAY-JUNE.

IN THE EQUIPMENT-GOODS SECTOR, THE TENDENCY TOWARD VERY RAPID GROWTH OF VOLUME SALES, NOTED SINCE THE END OF 1972, WAS REVERSED IN MAY-JUNE WHEN SALES WERE DEEMED SCARCELY ABOVE NORMAL.

3. CONTINUED COMPLAINTS OVER CREDIT CEILINGS -

CHORUS OF BUSINESS COMPLAINTS AGAINST APPARENT GOF SUCCESS IN TIGHTENING CREDIT CONTROLS (SEE PARIS 18177) IS CONTINUING, WITH NEW SPATE OF WARNINGS ABOUT FINANCIAL PROBLEMS OF SMALLER COMPANIES WHICH ARE LESS EQUIPPED TO COMPETE IN SCRAMBLE FOR CREDIT.

PRESIDENT OF PARIS ASSOCIATION OF SMALLER COMPANIES (PETITES ET MOYENNES ENTREPRISES) SAID AUGUST 14 UP TO 500 OF HIS MEMBERS ARE FACING BANKRUPTCY IN OCTOBER DUE TO LENDING CUTBACKS BY COMMERCIAL BANKS (ALTHOUGH, AS THE GOVERNMENT POINTED OUT, MANY OF THESE FAILURES MAY UNCLASSIFIED

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IN FACT BE DUE TO OTHER SOURCES). THOSE INTERVIEWED IN THE INSEE WHOLESALE SURVEY REPORTED ABOVE ALSO BELIEVED CREDIT RESTRICTIONS WOULD CAUSE REAL PROBLEMS, ESPECIALLY IN EQUIPMENT-GOODS SECTOR.

4. GOF APPROVES FUEL PRICE INCREASE -

THE PRICE OF DOMESTIC AND INDUSTRIAL FUEL IN FRANCE

WILL BE ALLOWED TO INCREASE ON AVERAGE 8 PERCENT, ACCORDING TO AUGUST 14 GOF ANNOUNCEMENT. DIESEL OIL WILL NOW COST 1.08 FRANCS PER LITER (L.04 FRANCS PREVIOUSLY), WHILE DOMESTIC HEATING OIL WILL RISE FROM 54.9 TO 57.4 FRANCS PER 100 LITERS. PRICE OF INDUSTRIAL FUEL WILL RISE FROM 292 TO 318.75 FRANCS PER TON.

THE PRICE INCREASES DID NOT COME AS A SURPRISE. THE INDUSTRY HAD COMPLAINED FOR MONTHS OVER DISPARITIES BETWEEN PRICE SCHEDULES FOR GASOLINE AND FOR OTHER

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FUELS, CLAIMING LOSS OF 81 FRANCS FOR EACH TON OF PETROLEUM REFINED. FINANCE MINISTRY ACTION SERVES TO REDUCE THE GAP BETWEEN MOTOR FUELS AND OTHER FUELS,

ALTHOUGH IT DOES NOT FULLY SATISFY INDUSTRY.

DOMESTIC CONSUMERS EXPECTED FUEL PRICE RISE SOONER OR LATER AND DID NOT WAIT FOR AUTUMN BEFORE FILLING THEIR TANKS: SALES OF DOMESTIC HEATING OIL IN JUNE WERE UP 140 PERCENT ON THE YEAR-EARLIER LEVEL, AND IN JULY BY 38 PERCENT.

5. FRENCH IMPORTS OF PRIMARY PRODUCTS CHEAPER IN JULY -

THE INSEE AGGREGATE PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE (1968 100) CONTINUED THE DOWN-
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WARD MOVEMENT REPORTED IN JUNE, PASSING 223.4 FOR THE PREVIOUS MONTH TO 206.3 IN JULY.

6. STEEL OUTPUT INCREASES -

FRENCH PRODUCTION OF CRUDE STEEL IN JULY WAS 1.98 MILLION TONS, UP 18.7 PERCENT OVER JULY 1973. SINCE THE FIRST OF THE YEAR STEEL PRODUCTION TOTALLED 15.78 MILLION TONS, A 6.6 PERCENT INCREASE OVER THE CORRESPONDING PERIOD IN 1973.

7. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

PARIS 19626 FRENCH TRADE BALANCE AUGUST 16, 1974
FOR JULY

PARIS 19637 FOREIGN DIRECT INVEST- AUGUST 16, 1974
MENT BY OIL PRODUCING
NATIONS

PARIS 20100 FRENCH CREDIT MEASURES AUGUST 22, 1974
TO PROMOTE EXPORTS

AIRGRAMS

PARIS A-452 FRENCH RESERVES IN AUGUST 9' 1974
JUNE 1974

PARIS A-453 CHILEAN DEBT AGREEMENT AUGUST 9, 1974

PARIS A-459 FRENCH FOREIGN EXCHANGE AUGUST 19, 1974
HOLDINGS

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